



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 6/2/2003

GAIN Report #RS3015

Russian Federation

Cotton and Products

Annual

2003

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Report Highlights:

Nearly all cotton processing is located in the Central Districts, but as almost no cotton is produced on the territory of the Russian Federation, the country is left entirely dependent on imports. With the weakening dollar and rising international prices, consumption is expected to decrease in 2003. However, this factor, plus declining imports from traditional Central Asian suppliers could leave room for US cotton.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Moscow [RS1], RS

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Executive Summary

Cotton consumption reached 403,000 MT in marketing year 2001 and 401,000 MT in MY 2002, stimulated by low prices and increasing consumer demand for cotton textiles due to expanding disposable income. However, raw cotton prices are now rising which will decrease consumption in 2003. Additionally, the strong ruble has made imports of fabrics and garments from developing countries that trade in dollars more competitive. Post forecasts a nearly three percent decline in cotton imports in MY 2003 along with a four percent decrease in domestic consumption and a thirty-one percent decrease in carry-over stocks toward the end of year. Because of increased domestic processing of cotton in Uzbekistan, imports of cotton fiber from this country, the main supplier of cotton to Russia, will decline. Post estimates that the market share of imports from Uzbekistan in MY 2002 will decrease to only 55% of the total.

Domestic Cotton Production

Russian authorities often say that with adequate investments, domestic production of cotton in the southern regions could have increased to 100,000 metric tons or one-third of total domestic consumption requirements. However, "adequate" investments are not foreseen in the near future. At present, Russian domestic cotton production is practically non-existent leaving the country completely dependent on imports.

Table 1. Cotton Supply and Demand, Metric Tons and Hectares

PSD Table						
Country:	Russian Federation					
Commodity:	Cotton					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	48335	48335	48335	48335	48335	32335
Production	0	0	0	0	0	0
Imports	402794	402794	370135	385000	0	375000
TOTAL SUPPLY	451129	451129	418470	433335	48335	407335
Exports	0	0	0	0	0	0
USE Dom. Consumption	402794	402794	370135	401000	0	385000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	402794	402794	370135	401000	0	385000
Ending Stocks	48335	48335	48335	32335	0	22335
TOTAL DISTRIBUTION	451129	451129	418470	433335	0	407335

Cotton Consumption

Post estimates cotton consumption in 2002 at 401,000 metric tons, slightly less than in MY 2001, the record for the post-1998 crisis period. Official data for cotton consumption does not exist and official customs data on cotton imports does not cover all imported cotton. Therefore, Post estimates and forecasts are based on import trends and on official cotton fabric production data. The latter is the only reliable data in cotton industry statistics and for the first eight months of MY 2002 (August 2002 - March 2003) cotton fabric production exceeded production in the same period in the previous year. A projected slight decrease in imports combined with steady fabric production will result in a very slight (only one percent) drop in consumption in MY 2002. Stocks of cotton, accumulated when international prices were low, will be drawn down considerably by the end of the year. For MY 2003, Post forecasts a decrease in imports to 350,000 tons reflecting stagnant domestic consumption and higher prices.

Counter to the worldwide trend of increased consumption of synthetic fibers in the textile industry, consumption of cotton in Russia is increasing faster than consumption of synthetics. In 2002, the share of cotton comprised 85 percent of the total volume of raw material used in the textile industry. However, this tendency may change in 2003, as cotton prices are expected to increase and imports, as well as domestic production of chemical fibers, should increase along with a drop in petroleum prices and a weakening of the dollar against the ruble. The strong ruble may also stimulate investments in production of value added products domestically. In this situation owners of textile factories will make production decisions based on the price of raw material and may switch to more use of chemical or flax fiber; this switch is especially easy for factories that work on a tolling basis. Additionally, the supply of cotton from the main sources (Central Asian Countries) may weaken, because Uzbekistan, the main supplier of cotton to Russia, plans to increase its own processing of cotton and production of yarn. At a conference in Cairo in October 2002, Uzbekistan's delegation reported that exports of cotton lint from Uzbekistan are forecast to decrease by half by 2005 as foreign investments have stimulated construction of domestic spinning factories.

According to experts, investments are needed for equipment modernization and in adjusting the system of certification based on "uniform international standards". It is very expensive to utilize these standards and few in the industry know how to use them or recognize their usefulness. A large percentage of textile processing capacity is underutilized in Russia and still far more human labor is used than in other countries. The use of standards more consistent with international norms is becoming more common in Uzbekistan, while sorting and processing of cotton in Russia is still based on the former Soviet time State Standards (GOSTs).

Trends in Textile Production

Production of fabrics increased in 2002 to the highest level since 1994. However, Post forecasts a slowdown in production of fabrics, especially cotton fabrics in 2003. Total fabrics production in the period from January through March 2003 was 712 million square meters, a nearly three percent decrease on a year-to-year basis, including a nearly three percent decrease in the production of cotton fabrics, while production of linen and other (synthetics) fabrics increased by about the same amount. The decreased production of cotton fabrics is due to a smaller supply and higher prices, as well as increased competition in the fabrics market from imported fabrics. Depreciation of the dollar is stimulating imports of cheap fabrics and products that will likely worsen the situation.

Table 2. Structure of Fabrics Production in the Russian Federation in CY 1994-2002

	1994	1995	1996	1997	1998	1999	2000	2001	2002
	In million M2								
All fabrics	2,169	1,757	1,401	1,559	1,395	1,653	2,323	2,614	2,847
Including									
- Cotton	1,525	1,291	1,052	1,150	1,085	1,261	1,820	2,085	2,326
- Linen and hempen	162	131	112	103	68	90	115	124	138
- Woolen	91	72	50	47	40	48	54	56	50
- Silk	246	197	136	134	111	148	177	171	148
- Other	145	66	51	125	90	106	158	177	185
	As a percent of all fabrics								
All fabrics	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100
Including									
- Cotton	70.3	73.5	75.1	73.8	77.8	76.3	78.3	79.8	81.7
- Linen and hempen	7.5	7.5	8.0	6.6	4.9	5.4	4.9	4.7	4.8
- Woolen	4.2	4.1	3.6	3.0	2.9	2.9	2.3	2.2	1.8
- Silk	11.4	11.2	9.7	8.6	8.0	9.0	7.6	6.5	5.2
- Other	6.7	3.8	3.6	8.0	6.5	6.4	6.8	6.8	6.5

Table 3. Cotton Fabric Production, Marketing Years and Calendar Years, Million Square Meters

	08/92	08/93	08/94	08/95	08/96	08/97	08/98*	08/99	08/00	08/01	08/02
Aug.	214	187	96	123	90	90	76	113	147	186	187
Sept.	171	213	102	121	85	95	61	123	152	181	195
Oct.	166	209	90	125	100	105	47	123	166	207	213
Nov.	182	238	112	120	95	110	43	138	168	207	197
Dec.	161	238	131	109	95	110	64	155	171	201	202
Jan.	127	169	120	88	85	107	59	139	160	190	183
Feb.	174	193	127	100	100	145	83	165	163	199	192
Mar.	190	184	100	78	115	142	109	171	155	211	209
Apr.	199	161	74	81	100	139	105	155	150	223	est. 176
May	181	114	75	75	85	85	77	122	152	167	est. 147
Jun.	229	110	110	85	85	98	101	140	168	169	est. 159
Jul.	150	62	87	80	70	79	75	124	155	173	est. 151
Total MY	2,144	2,078	1,223	1,185	1,105	1,305	899	1,668	1,907	2,314	2,211
Cotton Fabric production, CY 1994-99, million square meters											
Yr/Month	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Jan.	127	169	120	88	85	107	59	139	160	190	183
Feb.	174	193	127	100	100	145	83	165	163	199	192
Mar.	190	184	100	78	115	142	109	171	155	211	209
Apr.	199	161	74	81	100	139	105	155	150	223	
May	181	114	75	75	85	85	77	122	152	167	
Jun.	229	110	110	85	85	98	101	140	168	169	
Jul.	150	62	87	80	70	79	75	124	155	173	
Aug.	187	96	123	90	90	76	113	147	186	187	
Sep.	213	102	121	85	95	61	123	152	181	195	
Oct.	209	90	125	100	105	47	123	166	207	213	
Nov.	238	112	120	95	110	43	138	168	207	197	
Dec.	238	131	109	95	110	64	155	171	201	202	
Total Year	2,335	1,523	1,291	1,052	1,150	1,085	1,261	1,820	2,085	2,326	584

Monthly production of cotton fabrics in MY 2002 is estimated very close to the previous year (a very high production year), but starting in January 2003 monthly production was lower compared with the previous year. For months for which no data is yet available, Post used monthly averages from the previous three years. Post gives data on cotton fabric production both for marketing and calendar years in order to correlate cotton marketing year imports and consumption with calendar year trade in yarn and fabrics.

The Central Federal District remains the center of cotton fabric production of Russia, with Ivanovo oblast being the leader. However, changes are occurring in the ownership of these enterprises. Although physically many factories remain in these oblasts, the property belongs to financial groups or persons who are connected with cotton trading houses headquartered in other places. Thus, decisions on the purchase and supply for the factories are made in places

other than the place of production. In many cases the exact ownership is unclear. The administration in the places of production, like Ivanovo, where textile production was the basis for the development of the whole Oblast, is trying to maintain control and influence over the local textile industry, but in reality this industry is mostly independent from the local authorities and is driven strictly by commercial purposes. The local authorities are quite active in trying to solicit more investment, but the successes achieved so far have been achieved by some young, energetic businessman.

Trade

Little has changed from last year's annual (see RS 2013). The 20 percent VAT is still in place on imported raw cotton. When asked about this VAT, especially in light of that fact that nearly all processors complain that their industry is badly in need of investments, processors comment that the VAT is not important and is not paid on cotton imported for tolling purposes. Uzbekistan continues to be the major supplier to Russia based on tradition and price. Borders between Kazakhstan and other Asian countries continues to be porous and a large percentage of cotton continues to slip through these borders unreported.

Table 4. Trade Matrix, Cotton Imports, 1,000 Metric Tons

Import Trade Matrix			
Country:	Russian Fed.	Units:	Metric Tons
Commodity:	Cotton		
Time period:	Aug/Jul		
Imports for	0		2002
U.S.	200	U.S.	800
Others		Others	
Uzbekistan	226,350	Uzbekistan	212,000
Kazakhstan	69,700	Kazakhstan	65,000
Kyrgyzstan	30,675	Kyrgyzstan	30,100
Azerbaijan	22,980	Azerbaijan	23,000
Tajikistan	18,100	Tajikistan	18,000
Turkmenistan	7,450	Turkmenistan	8,000
Turkey	1,900		
Latvia	960		
Central Africa	495		
Burkina-Faso	197		
Total for Others	378,807		356,100
Others not listed	23,787		28,100
Grand Total	402,794		385,000

Prices

Russian cotton prices reflect conditions on the international cotton market. A significant decrease in prices in CY 2002 stimulated imports of raw cotton. Prices paid for imported cotton in November 2001 were the lowest in the history of Russian cotton imports since the planned cotton supply of Soviet times was discontinued. However, starting in November 2002 cotton prices have been increasing and in March 2003 reached \$821 per metric ton. Traders also significantly influenced the price of cotton in the domestic market for processors as many have special relations with Asian suppliers, or work as part of holding companies with capital supplied from Uzbekistan, Kazakhstan, Tajikistan and Azerbaijan, and which deliver cotton for processing to their factories. In these cases, the price of cotton may be lower than the market price. This situation leads to a significant dependency of Russian processors on developments in the cotton industries of their suppliers.

Table 5. Prices Table

Prices Table					
Country:	Russian Federation				
Commodity:	Cotton				
Year:	2002				
Prices in (currency)	US\$	per (uom)	Metric Ton		
Year	2001	2002	% Change		
Jan	1239	752	-39.3%		
Feb	1246	781	-37.3%		
Mar	1097	743	-32.3%		
Apr	1149	745	-35.2%		
May	1104	717	-35.1%		
Jun	1079	727	-32.6%		
Jul	993	755	-24.0%		
Aug	943	767	-18.7%		
Sep	826	731	-11.5%		
Oct	727	730	0.4%		
Nov	693	813	17.3%		
Dec	713	786	10.2%		

Trade in Yarn

Official statistical data for CY 2002 shows that imports of yarn exceed (for the first time) yarn exports. However, it is impossible to tell the extent of unofficial trade with Belarus or transshipment through this country. In 2001, the one-year when trade with Belarus was shown as trade with any other country; cotton yarn imports from (through) Belarus were only 499 MT, while exports were almost 3,750 MT.

Table 6. Trade Matrix, Exports, Cotton Yarn, Metric Tons

Export Trade Matrix			
Country:	Russian Fed.	Units:	Metric Tons
Commodity:	Cotton Yarn		
Time period:	CY		
Exports for	2001		2002
U.S.	0	U.S.	0
Others		Others	
Belarus	3,745	Italy	2,784
Italy	2,562	Portugal	1,367
Portugal	1,730	Austria	746
Austria	1,476	Moldova	334
Poland	1,166	Ukraine	219
Ukraine	479	Estonia	191
Estonia	243	Latvia	169
Lithuania	211	Lithuania	115
Latvia	154	Mongolia	83
Mongolia	151	Poland	43
Total for Others	11,917		6,051
Others not listed	479		300
Grand Total	12,396		6,351

Source: State Customs Data

The final official cotton yarn exports data for CY 2001 is 3,800 MT higher than data given in Post's Cotton Annual 2002. The difference is due to inclusion of trade with Belarus into the official Customs data in CY 2001. When the 2002 Annual was sent, the Calendar year data was not available and quarterly data did not show Belarus and in the official customs data for CY 2002, Belarus was again excluded from the totals. Thus, the sharp decrease in official data for exports of yarn in CY 2002 is mostly due to hidden exports to Belarus and Poland through Belarus. Post estimates that actual exports of cotton yarn in CY 2002 from factories located on the territory of the Russian Federation is over 10,000 MT.

Table 7. Trade Matrix, Imports, Cotton Yarn, Metric Tons

Import Trade Matrix			
Country:	Russian Fed.	Units:	Metric Tons
Commodity:	Cotton Yarn		
Time period:	CY		
Imports for	2001		2002
U.S.	0	U.S.	
Others		Others	
Uzbekistan	8,415	Uzbekistan	5,325
Tajikistan	1,980	Tajikistan	1,274
Turkmenistan	817	Ukraine	383
Belarus	499	Azerbaijan	291
Ukraine	83	Turkmenistan	78
Estonia	69	Korea Rep.	67
Korea Rep.	49	Italy	59
Germany	34	France	53
Kyrgyzstan	20	Germany	52
Italy	11	Kyrgyzstan	43
Total for Others	11,977		7,625
Others not listed	42		61
Grand Total	12,019		7,686

Imports of yarn decreased in CY 2002. However, in 2003 imports of yarn may increase from those Asian countries that trade in dollars as that currency weakens.

Trade in Fabrics

Russia remains a net exporter of cotton fabrics due to the use of tolling schemes. Tolling, by itself, supports the survival of the cotton textile production industry in Russia and is technically not under the "supervision" of local authorities.

Table 8. Trade Matrix, Exports of Cotton Fabrics, 1,000 Square Meters

Export Trade Matrix			
Country:	Russian Fed.	Units:	1,000 m2
Commodity:	Cotton Fabric		
Time period:	CY		
Exports for	2001		2002
U.S.	1,864	U.S.	1,711
Others		Others	
Ukraine	111,022	Ukraine	133,830
Italy	61,859	Italy	87,609
Austria	32,401	Lithuania	33,551
Belgium	28,163	Belarus	23,897
Lithuania	26,863	Check Rep.	20,783
Germany	25,593	Belgium	20,338
Check Rep.	19,479	Germany	18,277
Spain	13,351	Austria	15,720
Kazakhstan	11,060	Kazakhstan	11,711
Denmark	10,805	Spain	10,951
Total for Others	340,596		376,667
Others not listed	115,800		91,032
Grand Total	458,260		469,410

Source: State Customs Data

Table 9. Trade Matrix, Imports of Cotton Fabrics, 1,000 Square Meters

Import Trade Matrix			
Country:	Russian Fed.	Units:	Metric Tons
Commodity:	Cotton Fabrics		
Time period:	Aug/Jul		
Imports for	0		2002
U.S.	200	U.S.	800
Others		Others	
Uzbekistan	226,350	Uzbekistan	212,000
Kazakhstan	69,700	Kazakhstan	65,000
Kyrgyzstan	30,675	Kyrgyzstan	30,100
Azerbaijan	22,980	Azerbaijan	23,000
Tajikistan	18,100	Tajikistan	18,000
Turkmenistan	7,450	Turkmenistan	8,000
Turkey	1,900		
Latvia	960		
Central Africa	495		
Burkina-Faso	197		
Total for Others	378,807		356,100
Others not listed	23,787		28,100
Grand Total	402,794		385,000

Trade Policy

No changes since our the last Post report.

Challenges for US Cotton Exports to Russia

Central Asia continues to dominate the Russian market for imported raw cotton due to both tradition and price. Russian mills are geared specifically to processing Central Asian cotton's unique bale size and fiber length, rather than US cotton. Besides these concerns, millers comment that US cotton is too expensive. However, changes are occurring which could likely make US cotton a more viable source in the near future. First, Uzbekistan, Russia's main supplier, is beginning to change its bale size to be more in line with world standards as it look to diversify its buyers and become more competitive in world markets. Thus Russia will be forced to change its processing equipment to utilize a common bale size, eliminating this main constraint. Secondly, Uzbekistan is also beginning to develop domestic processing capacity to capture value added profits meaning decreasing supplies of raw materials for the Russian market which is likely to force Russia to diversify its suppliers. Lastly, with world prices increasing and the dollar weakening, the price gap between Central Asian suppliers and the US will narrow. Post continues to believe there is potential in the Russian market for US cotton and will continue to work toward that end.